RS650-2
10/4/88

JAPAN · ECONOMIC · INSTITUTE

JEI REPORT

A Two-Part Report: A and B

NO. 36B
September 23, 1988

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American Chip Makers And Users Interface

American makers and users of integrated circuits have achieved a unified position on the controversial U.S.-Japan semiconductor accord. Representatives from the American Electronics Association and the Semiconductor Industry Association tentatively decided September 8 to urge the Commerce Department to replace parts of the July 1986 agreement that have caused friction between the two groups and to pursue fuller Japanese compliance with the pact. The two sides are also exploring whether and how U.S. firms can re-enter the highly competitive market for dynamic random access memory chips, a market dominated by Japanese firms. As for the remaining $165 million in punitive tariffs imposed on specific Japanese products by Washington in April 1987 in retaliation for Japanese violations of the agreement, prospects for their removal remain slight in this election year.

Although a number of factors are involved, the bilateral pact has become the scapegoat for discontent among American DRAM users faced with increasingly

severe shortages of memory chips over the past year. To implement the pact, the Ministry of International Trade and Industry reduced excess supplies of DRAMs through administrative guidance to dry up sources for lower-price "gray market" vendors around the world. This, combined with the technical difficulties producers encountered in shifting from 256-kilobit to 1-megabit DRAMs and fast-expanding demand for memory chips in Japan, led to short supplies when the U.S. market for computer equipment picked up in the second half of 1987. Computer makers are the most vociferous critics of the semiconductor agreement, claiming that they actually have had to refuse orders because they could not obtain sufficient DRAM chips. Represented by AEA, these firms feel that it is they who are bearing the cost of the pact in the form of higher DRAM prices and reduced international competitiveness. American semiconductor producers, represented by SIA, argue that it is Japan's implementation that is at fault and that the pact is basically sound.

At the start of this year, both sides woke up to the fact that dependence on Japanese companies for DRAMs was a threat to the long-term health of both American chip makers and chip users. The AEA-SIA split also paralyzed U.S. negotiators, who could not discuss changes in the pact without a domestic consensus as to what needed to be changed. AEA and SIA initiated a series of talks aimed at eliminating the negative aspects of the pact and at revitalizing the production of DRAMs in the United States.

The early September AEA-SIA meeting produced a set of broad joint recommendations:

- "To develop and mutually support the adoption of a proposal that would allow the simultaneous suspension and replacement of the Fair Market Value system with a successor cost-based mechanism that is stronger and more effective in preventing dumping and that would include flexible remedies for targeting individual company violators and for taking actions against downstream products where appropriate." Computer makers have argued that Commerce's current system of setting quarterly FMVs is too slow and too broad. According to press reports, one replacement option under consideration is an antidumping duty that would be triggered instantly when cost calculations show unfair prices.

- "To urge that the procedural steps agreed to by SIA and EIAJ (Electronics Industry Association of Japan) be fully implemented, and that specific sectors of the Japanese industry be targeted for increased purchases of U.S. semiconductors and other electronic products."

- "To insist that the Japanese government live up to its commitments under the U.S.-Japan Semiconductor Trade Agreements; and the success of these efforts be measurable in terms of an increased real market share in Japan for U.S.-based companies."

- "To support the sanctions that are in place and to investigate increasing sanctions to insure compliance with the Japanese commitments under the agreements."

SIA's position is that Japan agreed, at least implicitly, to guarantee U.S. producers 20 percent of the Japanese chip market by August 1991. AEA opposes any such guaranteed market share since it would be a de facto cartel

and could lead to higher prices for many components they buy from Japan. The recent proposals give the SIA a major objective: creating a unified U.S. position in favor of greater access to Japan's markets. They also do not go farther than what is already embodied in the bilateral pact, a clear plus for the AEA.

- "To develop extraordinary measures designed to encourage increased U.S. DRAM production with a view to increasing U.S. worldwide market share; and to seek appropriate U.S. government cooperation." After complaining so loudly about the negative impact of Japanese dominance, U.S. chip makers have failed to return to the DRAM market in significant numbers. This situation reveals a long-standing split between chip makers, which need strong prices to fund their enormous capital spending and research and development requirements, and chip users, which want the lowest prices possible. Producers argue that users are only interested in the lowest price and are not willing to support the domestic industry in the cutthroat DRAM market. Chip buyers argue that they should not have to pay the price for the failure of U.S. chipmakers to remain competitive with foreign producers.

What both sides now realize is that the current situation is the worst of both worlds. Market dominance allows Japanese firms to charge high prices for DRAMs, which gives them the cash to produce better computers as well as the next generation of memory chips. AEA and SIA are hoping to commission a study of the best strategy for American re-entry into the DRAM market. Since the recently formed joint American consortium, Sematech Inc., is already exploring production technologies for the 4-megabit DRAM, AEA and SIA may focus on how to foster cooperation between their members to promote the U.S. industry.

Both organizations are now working on detailed proposals to support these points of broad agreement. The two hope to present a full proposal to the U.S. Trade Representative within 60 days. Despite recent Japanese moves to raise DRAM production and also pave the way for greater U.S. sales in Japan, the subject will likely remain a priority on the bilateral trade agenda.

Jon Choy

Japan's Energy Appetite Expands

In a worrisome reversal of post-oil shock trends, the growth of Japanese energy consumption in FY 1987 (ended March 31, 1988) outpaced the growth of real final output. In what some analysts are calling a "reverse oil shock," Japan is reacting to low global energy prices and the restructuring of the domestic economy by increasing its demand for energy. Data from a government agency and a private research organization both show that the shift toward "knowledge-intensive" industry and domestic demand-led growth have raised energy needs, exactly opposite expectations.

According to the Ministry of International Trade and Industry, Japan's consumption of all types of energy rose 5.3 percent in FY 1987, above the 4.9 percent expansion in real gross national product. The increase was the sharpest since FY 1977 and was traced to greater energy use by both industries and households. Consumption of oil and petroleum products rose 4.2 percent, electricity use was up 6.3 percent; 4.1 percent more propane and 5.7 percent more coal were burned. These increases easily outran MITI's projected increases of 2 percent for oil, 1.8 percent for electricity, 2 percent for propane and 1.7

percent for coal. Although a hot summer and a cold winter contributed to the rising demand, MITI pinned the blame on a resurgence by energy-intensive basic industries, including steel, chemicals and paper and pulp. Individuals also played a role, however. Responding to lower prices for gasoline, propane and electricity and reflecting increased purchases of appliances, bigger cars and larger homes, household consumption rose strongly, in some cases by double digits.

Japan's energy elasticity (the rate of energy consumption growth divided by the rate of real GNP growth) rose to 1.08, going above 1 for the first time in four years. (Ratios of less than 1 indicate that the economy is becoming more energy efficient.) Although energy use was kept in check during FY 1985 and FY 1986 by an economic slowdown, officials are alarmed by the sharp change from FY 1986's 0.12 energy elasticity figure.

According to the Japan Research Center for Energy Economics, a private think tank, the picture was slightly better. Overall consumption rose 5.18 percent in FY 1987 (see Table), with industrial use leading the way with a 6.03

Japan's Energy Supply and Consumption, FY 1986-FY 1987

(in billions of kilocalories and percent change)

	FY 1986	FY 1987	Change
Supply			
Petroleum	21,680.1	22,794.0	5.14%
Crude oil	17,334.7	17,343.3	0.05
Petroleum products	4,345.4	5,450.7	25.44
Heating oil	2,905.7	3,995.3	37.50
Coal	7,061.8	7,327.8	3.77
Coking coal	2,088.1	2,237.3	7.15
Steam coal	4,841.1	4,988.7	3.05
Natural gas	4,029.7	4,156.3	3.14
Liquefied	3,827.6	3,936.3	2.84
Hydroelectric power	2,108.9	1,981.1	-6.06
Nuclear power	4,099.2	4,571.9	11.53
Total	38,819.7	40,696.1	4.83
Consumption			
Industry	12,452.6	13,203.3	6.03
Manufacturing	11,334.2	12,029.0	6.13
Pulp and paper	429.2	491.3	14.47
Chemicals	3,092.1	3,269.8	5.75
Nonmetallic mineral manufactures	796.4	912.6	14.59
Steel	3,731.3	3,868.6	3.68
Nonferrous metals and machinery	753.3	813.8	8.03
Households	6,391.2	6,707.3	4.95
Transportation	6,382.1	6,640.7	4.05
Total	25,970.7	27,315.5	5.18

Source: Japan Research Center for Energy Economics

percent increase, followed by a 4.95 percent gain by households and a 4.05 percent increase by the transportation sector. Sharp jumps in consumption by the paper and pulp and the nonmetallic mineral manufactures industries were actually outweighed in terms of energy consumption by modest increases in the much larger steel and chemicals industries. Of the three sectors, only transportation showed an increase that was below the overall rate of economic growth.

The upward trend has continued in the current fiscal year. Petroleum imports, particularly of refined products, are up sharply. Electricity consumption is also up by 6 to 7 percent, easily outstripping the real growth of output. The trend is worrisome to government planners, who nervously eye the rapidity with which Japanese consumers have adopted a more energy-intensive lifestyle. Lower global oil prices allow budget planners to cut government support for energy programs, but they also raise the potential for hardship in the event of another energy crisis. The decline of oil prices and the unexpected consequences of economic restructuring have sent energy planners back to their drawing boards. New long-term energy demand and supply outlooks are in the works.

Jon Choy

New Opportunities For Foreign Nationals In Japan

Imagine the job description. You will be expected to live thousands of miles from home, probably in one of the world's most crowded and expensive cities. You may be required to speak a foreign language, and at first you may have to share a 10-foot-square room with another new employee in a company dormitory. Some of your predecessors in the position became frustrated at the lack of promotion potential. Sound good? Increasing numbers of Americans are said to be seeing the benefits and signing up to work for companies in Japan -- both Japanese and foreign-owned.

Among the advantages are being in one of the world's most dynamic economic environments, sometimes with professional opportunities unavailable elsewhere. Perhaps the American or other foreigner should be grateful even for the opportunity to apply; even now the range of legal jobs open to foreigners in Japan is very restricted, concentrated in those jobs that foreigners are regarded as likely to do better, or at least differently, than a Japanese. On this basis, Seibu Department Stores, Ltd. was recently able to hire "foreign nationals with a sensibility different from that of Japanese." Illegal employment is another matter entirely (see JEI Report No. 15B, April 15, 1988). And, of course, Japanese firms employ thousands in a variety of jobs outside Japan.

Japanese firms have long concentrated their hiring of foreign nationals on foreign language teachers, and language-related employment continues to be important. In 1987, according to a Ministry of Justice report, 53 percent of those hired by Japanese companies were foreign language instructors. Another 9 percent were interpreters, translators or copywriters. But Japanese companies are said to be reaching out, albeit in still limited ways, for other kinds of foreign expertise. Honda Motor Co., Ltd., for example, employed its first six foreign nationals in 1987, eyeing them, it said, for future management positions. Hired straight out of colleges, they were put through the same paces as their Japanese counterparts, including stints on the assembly line and in the sales division.

The Justice Ministry tally leaves out the largest category of all: foreign entertainers and athletes. According to another Justice count of all foreign nationals authorized to work in Japan, this category accounted for about 82 percent of all legal foreign workers and all of the growth in employment of foreign nationals from 1984 to 1986 (see Table).

Foreign Nationals Authorized to Engage in Professional Activities for Renumeration in Japan

	1984	1985	1986
Trade, business or investment	6,887	6,826	6,773
Teaching at academic and research institutions	336	310	333
Theatrical and other performances and sports events for income	32,952	34,569	44,989
Providers of advanced technology	10	13	18
Skilled labor	511	498	552
Other categories (including teaching) authorized by justice minister	2,110	1,797	2,071
Total	42,806	44,013	54,736

Source: Ministry of Justice

The small numbers of foreign employees are reflected in the totals at individual companies. Kobe Steel, Ltd., which employs about 24,000 people worldwide, is known as one of the pioneers in employing foreign nationals to work in Japan, hiring the first in 1975. Today it still has only 27 on the payroll in Japan. In all, about double that number have worked for Kobe since 1975, suggesting to Kobe much greater turnover than among Japanese workers.

Foreign language ability remains a major factor attracting Japanese firms to foreign nationals, but sometimes technical skills or an understanding of legal practices or foreign markets are the key. U.S. baseball players bring an obvious talent to their game, but American sumo wrestlers have had some success in Japan, too. For some occupations, lower wages are an important consideration. The Ministry of Transportation has proposed that Japanese shipping companies, facing staggering losses in the wake of the yen's appreciation, be allowed to staff their Japanese-registered ships with foreign crews, which would work for far less than Japanese crews. (Ship owners are getting around the current prohibition on foreign workers by registering their vessels abroad.)

Foreign nationals, including an estimated 100,000 illegal alien workers, account for a miniscule fraction of total Japanese employment. Overall, jobholders in Japan numbered 60.8 million in 1987. Legal and illegal hiring of

foreigners in Japan, combined with increased employment in the foreign subsidiaries of Japanese firms, which have hundreds of thousands of workers on their rolls worldwide, is making Japanese firms increasingly multinational in their staffing patterns. With the numbers still small but growing rapidly, the hiring of foreign workers raises questions not only of Japanese corporate strategy but of culture. Japanese employers, for example, believe that Americans bring very different commitments to their jobs and beliefs about the relative importance of work and family, yet increasingly Americans and Japanese are working side by side, sometimes even competing for the same promotions. But Japanese companies are not likely to quickly emulate American practice, where foreign nationals have sometimes risen to the top ranks in multinational companies.

Douglas Ostrom

Aid For Bangladesh

Japan and the United States have initiated massive aid relief efforts in order to help Bangladesh cope with devastating floods that hit in early September. The death toll had risen as of September 22 to 1,000 people, the Japanese Red Cross reported. An estimated 25 to 28 million people are homeless and possibly more are facing starvation, poisonous snakebites, debilitating diarrhea and a host of diseases spread by the polluted water. Already one of the poorest countries in the world, Bangladesh stands to lose one-third of its rice crop and a large portion of its main cash crop, jute. Many farmers who have lost their homes and crops have begun migrating into the cities to find jobs.

Japan, Bangladesh's leading aid donor, has pledged $135 million for flood relief in addition to the $290 million in aid that it had already promised for FY 1988. In early September the two governments agreed on a $28 million grant that will be used to continue construction of transportation links that will connect the capital, Dhaka, and Chittagong, the second-largest city. The money will also be used to repair an irrigation project that was damaged by the floods and to provide a water supply to two towns.

The Japanese Red Cross announced in mid-September that it would send Bangladesh $128,000 in private emergency aid to supplement the $80,000 in aid donated earlier this month. The American Red Cross made an initial emergency aid donation of $50,000 and plans to increase this amount. Overall, $6.2 million in aid for Bangladesh is being requested from Red Cross/Red Crescent organizations worldwide by the International Red Cross based in Geneva. The aid will be used in a three-part program designed by the International Red Cross working with the Bangladeshi Red Crescent organization to help 1 million victims over a 60-day period. The program will include distributing clothing and dry foods; providing emergency and preventative medical care and purified water supplies; and rebuilding homes.

The United States, which has already provided $134 million in aid to Bangladesh this year, will provide $150 million to help combat the disaster. An $84 million repayment made by Bangladesh for past aid received through the Food for Peace program was also returned by the United States. The State Department has shipped $6 million worth of supplies, primarily grain, to Bangladesh; $60 million in grain scheduled for shipment there next year is also being sent. Although it appears that enough food will reach Bangladesh,